



Mrs. Urska DOLINSEK
President of the Council Working
Group Energy,

REF. JWG/lt

Contact person : Jan Willem Goudriaan

Brussels, 19 February 2008

Dear Mrs. Dolinsek,

EPSU, the European Federation of Public Service Trade Unions is concerned about the discussion on ownership unbundling in the Council, and the lack of consideration for the employment effects on the workers concerned.

The European Commission has introduced a third package of measures to open up the internal market for electricity and gas to competition. One of the most hotly debated issues in that package concerns ownership unbundling. The European Commission argues for full ownership unbundling or as derogation the Independent System Operators model. A group of Member States has now introduced a "third way". The European Commission appears to dismiss this proposal.

We demand that the different proposals are investigated and compared. Why:

- The European Commission has never presented a proper impact assessment of its proposals. *Professor of energy policy Steve Thomas (University of Greenwich)* has pointed out that the impact assessment presents "statements of belief" not based on evidence, "unsubstantiated assertions", "**a fundamental misunderstanding of the forces that lead a network company to invest**", "totally misconceived" position on investment and a presentation of facts that are "a travesty of what actually happened".
- Recent evidence of Professor Florio of the University of Milan and based on a far larger data set than the one used by *Copenhagen Economics* for the European Commission in its impact assessment, using the REGREF indicators of liberalisation of the OECD, concludes that the effect of **vertical unbundling of electricity prices appears to be negative - resulting in price increases - while vertical integration is positively associated with customer satisfaction.**
- It must of interest to the Council that in the country with vertical unbundling, a well-staffed regulator and a long experience now of liberalisation and seen by many as being a model, the UK, recent price increases have been condemned by consumer organisations and anti-fuel poverty campaigners. The House of Commons will start an inquiry into price rigging and exploitation of citizens.

The least what can be said is that ownership unbundling does not prevent exploitation nor ensures a well-functioning wholesale market, issues which seem more important from a consumer perspective than ownership unbundling. The Commission has presented no evidence for its claim that the effects on employment in the companies will be negligible.

We request the Council to compare the different proposals now presented on ownership unbundling for their effect on:

Employment - for the workers concerned in the companies as well as for the workers in large energy companies and small and medium sized ones. We expect these effects to be negative for the workers in the sector concerned and very small if any for workers in the wider economy.

Prices - We already referred to recent research based on a larger data set which indicates that the effect of vertical unbundling on prices in electricity appears to be negative, resulting in a price increase, rather than reduced prices.

Investment - the key here is to ensure a stable environment, long-term and non-discriminatory investment plans and regulatory oversight, which all proposals appear to do.

EPSU request the Council therefore:

- to make an independent investigation of the impact of liberalisation of the electricity and gas markets or together with the European Parliament. The Commission's evaluation is self-justifying and is used as a piece in its case for its proposals.

Dear President,

We are concerned that restructuring of the companies is proposed by the European Commission without a corresponding mechanism to deal with possible social effects. This undermines the work of the Council and Commission to ensure restructuring takes place in a social responsible manner, and hence challenges how workers and their families perceive the European process when the Commission can not even introduce a social dimension in proposals that have a direct impact on the companies in which they work.

We request the Council to integrate in the draft Directive in the article on ownership unbundling, ISO model or the "third way" (a more precise case of legal and functional unbundling) the following:

Independent of the model chosen, Member States shall ensure there are no negative consequences for the employment, working conditions and information, consultation and participation rights of the workers concerned. Member States will consider the implementation of the option chosen with the social partners concerned to mitigate negative consequences.

Dear President, as you, the European Parliament, Member States and the Commission, also EPSU is concerned about ensuring that household users are not exploited and a low price for their electricity and gas. This is equally important to large energy users and small and medium-sized companies.

EPSU has raised a broader range of issues such as:

- Importance of allowing price regulation for domestic households (and possibly for small and medium sized companies) for Member States which wish to do so;
- Protecting low-income users against price volatility and price increases and to prevent disconnections;
- Increasing powers of the regulators should be accompanied with strengthening democratic control and improved accountability and participation, for example

through an advisory council (like in Belgium) which allows representatives of low-income users, trade unions, consumers to be more structurally consulted and prevents regulatory capture.

We appreciate if you can circulate the letter to other members of the Council Working Group on Energy.

We are available to discuss our concerns with you and attach references and documents for your consideration.

Yours sincerely,



Jan Willem Goudriaan
EPSU Deputy General Secretary

Attached:

- Critique of the European Commission's Impact Assessment, Prof. Steve Thomas, University of Greenwich
- Note on the employment chapter in the Commission's impact assessment (EPSU)
- Note with references on the Study of University of Milan Prof. Florio, on effects of liberalization, vertical unbundling on prices and customer satisfaction

For general reference also:

Employment study of EcoTec for the European Commission demonstrating how the internal market for electricity and gas has contributed to over 330.000 jobs losses (Period 1990-2004)

<http://www.epsu.org/a/2939>

EPSU response on the Green Paper for our general position.

http://www.epsu.org/IMG/pdf/EN_position_on_Green_Paper-3.pdf